

Business Taxes for the Self-Employed: The Basics

**Small Business/Self-Employed Division
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**The information contained in this presentation is current
as of the date it was presented.
It should not be considered official guidance.**

What IRS Wants You to Know About Self-Employment

Self-employed persons:

- Make estimated tax payments
- Pay self-employment tax (Social Security and Medicare)
- Include income not subject to withholding when calculating estimated tax payments

What IRS Wants You to Know About Self-Employment (cont.)

Self-employed persons can:

- Deduct costs of running your business
- Deduct a business expense if it is both ordinary and necessary
- Find more information at the Self-Employed Individuals Tax Center

Who is Self-Employed?

- Sole proprietor
- Independent contractor
- Self-employed work can be full-time or part-time

Estimated Tax Payments

Quarterly tax payments include federal income tax and SE tax and are due:

- April 15
- June 15
- September 15
- January 15

Self-Employment Tax

- File Schedule SE if your net earnings from self-employment are \$400 or more

Employer Identification Number

- Social Security Number – Generally, use your SSN as your taxpayer identification number
- Employer Identification Number – is needed if you pay wages, operate as a partnership or corporation or may be needed for setting up some business accounts
- Apply for an EIN online at:
<http://www.irs.gov/businesses/small>
or by phone
1-800-829-4933

Electronic Federal Tax Payment System

EFTPS is:

- Free
- Secure
- Accurate
- Convenient

Visit <http://www.irs.gov> and click on the EFTPS link on the homepage to enroll

Free File

- Income less than \$58,000
- Tax software companies make their products available for free
- Income over \$58,000, can use IRS Fillable Forms and e-file for free

IRS e-file

- Transmit your return electronically via secure IRS e-file
- Track refunds within 72 hours of e-filing
- Pay electronically

How Do I File My Annual Return?

- Form 1040
- Schedules C or C-EZ
- Schedule SE

Use Schedule C-EZ only if:

- Had business expenses less than \$5,000
- Use a cash accounting method
- Had no inventory
- Had no net business loss
- Had only one business

Use Schedule C-EZ only if: (cont.)

- Had no employees
- Had no depreciation and amortization business expenses
- Do not deduct expenses for business use of a home
- Had no prior year unallowed passive activity losses

Use Schedule C to report:

- Gross receipts and expenses of your sole proprietorship
- Certain miscellaneous income shown on Form 1099-MISC

Profit or Loss From Business (Sole Proprietorship)

- Gross receipts
- Net profit or loss
- Net sales
- Cost of goods sold
- Gross profit

Net Profit or Loss

**Gross income minus expenses
equals net profit or loss**

- Net profit is the amount on which you pay tax
- Generally, losses can be deducted from income up to allowable limits

Net Sales

Gross receipts minus returns and allowances equals net sales

Cost of Goods Sold

**Beginning inventory plus purchases
minus cost of merchandise withdrawn
for personal use**

**equals cost of items available for sale
minus ending inventory
equals cost of goods sold**

Gross Profits

Gross receipts minus (sales, returns and allowances) minus cost of goods sold equals gross profits

Expenses

- Travel
- Transportation
- Entertainment

Travel Expenses

- Ordinary and necessary
- Overnight travel
- Cost of public transportation
- Operating and maintaining a car
- Meals and lodging
- Other related expenses

Transportation

- Ordinary and necessary
- One work place to another
- Does not include commuting

Use of a Car for Business

- Actual business expenses include:
 - Gas and oil
 - Repairs
 - Insurance
 - Depreciation
 - Tires
- Commuting mileage not included
- Standard mileage rate is available

Business Entertainment Expenses

- Entertainment expenses are deductible if ordinary and necessary
- Publication 463 explains the 50 percent limits on business meals and expenses

Depreciation of Business Property

- Useful life longer than one year
- Must be property that:
 - Wears out
 - Gets used up
 - Becomes obsolete or loses value
- Modified Accelerated Cost Recovery System
- IRC Section 179

Small Business Tax Incentives

- Health insurance deductions
- Start-up deductions
- Small Business Jobs Acts of 2010

Recordkeeping

Keep:

- Receipts invoices and sales slips
- Bank statements, deposit slips and cancelled checks
- Bookkeeping records, including electronic data
- Other documents to substantiate income and expenses

Recordkeeping (cont.)

Goods records can help you:

- Monitor the progress of your business
- Prevent omission of deductible expenses
- Establish earnings from self-employment
- Explain items on your income tax return

Disaster Planning

- Have a disaster plan in place
- Take advantage of paperless recordkeeping
- Back up electronic files and store in a safe and separate location
- Compile a list of your belongings or business equipment

Business Structures

Sole Proprietorship

- One person business automatically classified as a sole proprietor
- Simplest type of business organization
- Capital may be limited

Qualified Joint Venture

- Can only be husband and wife
- Both spouses materially participate
- Both spouses elect to have provision apply
- Treated as sole proprietors
- Each spouse given credit for Social Security
- Each spouse must file a separate Schedule C and SE

Considering a Tax Professional

- Avoid fees based on percentage of refund
- Paid preparers must sign returns
- Find out the preparer's credentials
- Review accuracy of your return
- Never sign a blank return
- Report suspicious preparer actions to this e-mail address: opr@irs.gov

Online Learning Tools

- IRS Video Portal – contains video and audio presentations on topics of interest to small businesses and individuals
- Virtual Small Business Tax Workshop – on IRS Video Portal under Small Businesses tab

Summary

- Sole proprietor
- SE and ES payments
- EIN
- EFTPS
- Free File / e-file
- Schedule C

Summary (cont.)

- Formulas
- Expense deductions
- Depreciation
- Recordkeeping
- QJV
- Considering a tax professional

Do You Have a Question?

Select the "Ask a Question" link
under the PowerPoint window
then select the submit button.